All in the family: Weston undergoes a shakeup

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Judging from the reaction to management changes announced at Loblaw Cos. Ltd., on Sept. 20, you'd think investors and retail watchers would have preferred majority owner Galen Weston to follow the lead of his father, Garfield, when it comes to succession--or at least, the version of Garfield's succession philosophy as told by Richard Currie, who led the grocery retailer as president for more than a quarter-century. According to Currie, in a 2005 interview, "When I got the Loblaw job...Garfield Weston said, 'Here are the rules: If you want to buy something, we want to know; if you want to sell something, we want to know; if you have to borrow money, we want to know. Otherwise, run the business as if you owned it.'"

Currie was the man to do the job. He and those working under him turned around a struggling chain and made Loblaw into Canada's largest grocer. Garfield, and then Galen, may have been the owners, offering support and a vision from the chairman's seat, but it was Currie and his crew who were in charge of putting the grocer back on track.

Fast-forward to 2006. Times have changed. Galen Weston has put his 33-year-old son, Galen G. Weston, in charge of Loblaw, giving him a newly created position--executive chairman. This, despite now being one of the most troubled times in company history. Galen Jr., who has worked at Loblaw since 1998, will not only become chairman of the board as his father steps down (Galen Sr. will continue to be chairman at Loblaw's parent, George Weston Ltd.); he will also be responsible for retail operations, labour relations, the President's Choice banking unit, real estate and store construction. As part of the plan to allow Galen Jr. to assume those duties, the company announced the resignation of Loblaw president John Lederer. Though Loblaw said Lederer's departure was "by mutual agreement," it is no secret he had disappointed shareholders in his attempts to solve the retailer's problems--from distribution hiccups to honing a strategy in the advance of Wal-Mart's entry into Canada's $62-billion food market. The first Wal-Mart Supercenters are set to open this fall.

Other changes include the promotion of 46-year-old Mark Foote, who last spring was lured away from a 27-year career at Canadian Tire to become executive vice-president of general merchandise, procurement and merchandising. Foote, who will report to Galen Jr., was made president and chief merchandising officer. Additional support comes in the form of Allan Leighton, chairman of the Royal Mail Group PLC, the U.K. postal service, who was appointed deputy chairman of both Loblaw and George Weston, which owns 62% of the grocer. Leighton, 53, is a former chief executive of Wal-Mart's European division, and prior to that had overseen the growth of Asda Stores Ltd., the British unit of Wal-Mart.

But despite such high-powered talent, there's little doubt who will be running Loblaw. "Clearly, Galen Jr. is the CEO of this company," says one analyst, on condition of anonymity. "His title really should be chairman and CEO. So now we've got one of these beautiful Canadian family nepotism things." The analyst notes that Galen Jr. was "always going to be employed by Loblaw or Weston, or some combination [of the two]. So why now?"

Well, for starters, it's clear Galen Sr. wants to continue the dynasty. He took over ownership of Loblaw in the 1970s from his father, who purchased the retailer in 1947. Today, it has more than 1,000 corporate and franchised stores, operating under banners such as Loblaws, Real Canadian Superstore, Provigo, Fortinos and No Frills. It has been one of the family's biggest sources of wealth, estimated at $9.28 billion, in December 2005. During a conference call with analysts, the senior Weston said the changes were "not a hasty reaction." Galen Jr. told analysts that in his new role, he intends to "move forward and continue the transformation [of Loblaw] as planned."

Perry Caicco, an analyst at CIBC World Markets, says in a report that the changes should not be seen as "instantly positive." Adds Caicco: "Indeed, they leave several questions unanswered, not the least of which is the future direction of the company." Loblaw is having problems in its core food business, is heading into union negotiations and is facing the opening of Wal-mart Supercenters in Ontario--a key market for Loblaw that "is collapsing," he says. "We view none of this...as positive for the share price in the near term." He has lowered his target on Loblaw stock to $50 from $55. It opened at $50.50 on the day of the announcement and closed on Sept. 22 at $47.85.

Caicco notes that the changes look confusing on the surface, as Lederer is replaced by three people "with unclear titles." He describes Leighton as a "hands-on executive with a passion for the customer experience--over time he may be instrumental in augmenting the Loblaw management team with international executives." Caicco also points out that Foote has gained influence, adding responsibility for food and supply-chain management. "However, he is one of six executives reporting to Galen G. Weston," says Caicco. Adds another analyst: "Why not put Mark Foote in the [top] role, let Galen Jr. continue to get more experience and have him run the company when he's 39 or 40?"

Caicco defends Lederer's attempts to turn Loblaw around, saying that the 50-year-old executive, who had spent more than half his life at the company, had been addressing its core issues. He describes Lederer as a "brilliant, hard-working and well-known" executive, and points out that Lederer's departure might have an impact on the company's ability to retain the same management group.

Patricia Baker, analyst at Merrill Lynch, also says, in a research note, that Lederer's resignation is a loss, and the management changes "may have, in fact, exacerbated the situation." She says that while Lederer was in charge at a time when the company was facing serious issues, he was "righting the business for the long term." The move, she adds, is "tantamount to a hasty change of quarterback in the middle of an important game," and that losing Lederer will leave a "meaningful void in the executive ranks." While Foote is an able executive, Baker says he is rising through the ranks at Loblaw "much earlier than anyone could have anticipated--a scant five months" after joining the organization.

Others are more upbeat. Jim Durran, analyst at National Bank Financial, says Foote's promotion is a positive for the company over the long-term, given his extensive general merchandise experience and team-oriented style. "We do not have any concerns about his lack of food experience," says Durran. As for Galen Jr., Durran points out that he has been working full time at Loblaw for the past eight years and was most recently senior vice-president of corporate development. Prior to that, he was vice-president of operations for the No Frills division.

Another analyst, Peter Holden, of Veritas Investment Research, based in Toronto, says that he's not so worried about the management changes, noting that Foote and Leighton will provide a comfortable buffer around the young Weston. "Given that [Galen Sr.] was going to turn the business over to his children, it's not surprising that he decided to do this," says Holden. In August, he put out a Buy on Loblaw stock, suggesting most of the company's problems had bottomed out and that the future held more upside--views he still holds. Adds Holden: "In a perfect world, nepotism wouldn't be a factor in promotion, but we don't live in a perfect world, we live in this one. And if I owned Loblaw, I'd probably want my son to succeed me as well."

That very well may be true. But, with the stock down since the announcement, and several other analysts downgrading their forecasts for Loblaw, many in the market are waiting for the next generation of the Weston family to prove its mettle before taking a leap of faith.